

ORIGINAL



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MEMORANDUM

TO: Docket Control Center

FROM: Steven M. Olea
Director
Utilities Division

DATE: January 15, 2014

RE: STAFF REPORT FOR LITTLE PARK WATER COMPANY'S APPLICATION
FOR A RATE INCREASE (DOCKET NO. W-02192A-13-0336)

Arizona Corporation Commission

DOCKETED

JAN 15 2014

DOCKETED BY

Attached is the Staff Report for Little Park Water Company's application for a rate increase. Staff recommends approval of the rate increase application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before January 27, 2014.

SMO:PNT:red\BES

Originator: Phan Tsan

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Docket No. W-02192A-13-0336

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

LITTLE PARK WATER COMPANY, INC.

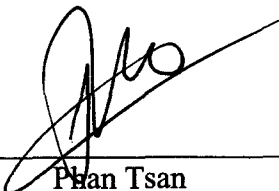
DOCKET NO. W- 02192A-13-0336

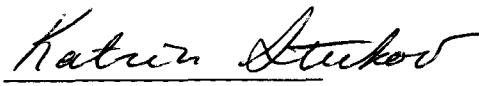
**APPLICATION FOR
A PERMANENT RATE INCREASE**


JANUARY 15, 2014

STAFF ACKNOWLEDGMENT

The Staff Report for Little Park Water Company, Inc., Docket No. W-02192A-13-0336 was the responsibility of the Staff members listed below. Phan Tsan was responsible for the financial review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Phan Tsan
Public Utilities Analyst I

Katrin Stukov
Utilities Engineer

Carmen Madrid
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
LITTLE PARK WATER COMPANY, INC.
DOCKET NO. W- 02192A-13-0336**

Little Park Water Company, Inc. ("Little Park" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission") on October 4, 2013. The application was deemed sufficient on November 1, 2013.

Little Park is a class D for-profit corporation operating in Arizona as a public service corporation that provides potable water service to approximately 73 metered customers residing between Sedona and the Village of Oak Creek in Yavapai County, Arizona. The Company's current rates were authorized in Decision No. 71840, dated August 10, 2010.

The Company proposed a \$29,491 or 40.59 percent increase over the test year revenue of \$72,654 to \$102,145. The Company proposed revenue would result in an operating income of \$17,378 for a 15.35 percent rate of return and an operating margin of 17.01 percent. The Company has proposed an original cost rate base ("OCRB") of \$113,227. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 7,712 gallons from \$33.35 to \$46.77, for an increase of \$13.42, or 40.24 percent.

Staff recommends a \$15,061 or 20.23 percent increase over the Staff adjusted test year revenue of \$74,446 to \$89,507. Staff's recommended revenues would result in an operating income of \$9,553 for a 9.76 percent rate of return and an operating margin of 10.67 percent. Staff recommends an OCRB of \$97,839. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 7,712 gallons from \$33.35 to \$38.88, for an increase of \$5.53, or 16.58 percent.

STAFF RECOMMENDATIONS

Staff recommends:

1. Approval of its recommended rates and charges as shown in Schedule PNT-4.
2. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. The Company be ordered to continue to use the depreciation rates presented in Table B of the attached Engineering Report.
4. The Company be ordered to continue its current service line and meter installation charges as delineated in Table C of the attached Engineering Report.
5. Little Park file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three Best Management Practices ("BMPs") in the form of tariffs that substantially

conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. A maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the implementation of these BMPs in its next general rate application.

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ATTACHMENT

Engineering Report	A
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FACT SHEET

Type of Ownership: Arizona C Corporation.

Location: The Company provides potable water service to an area located between Sedona and the Village of Oak Creek, in Yavapai County, Arizona.

Active Management Area: The Company is not located in an Active Management Area.

Rates:

Permanent rate increase application filed: October 4, 2013

Current test year ended: June 30, 2013

Prior test year ended: June 30, 2009

Current Rates: Decision No. 71840 dated August 10, 2010

	Company Current Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Minimum Rate			
Residential Monthly Minimum Charge			
5/8 x 3/4 inch	\$16.00	\$24.00	\$19.50
(Gallons included in the minimum)	0	0	0
Commodity Rate (Per 1,000 gallons)			
<u>1 Inch Meter and Smaller (Residential)</u>			
0 to 3,000 gallons	\$ 1.70	\$ 2.25	\$ 1.75
3,001 to 10,000 gallons	2.60	3.40	3.00
Over 10,000 gallons	3.10	4.15	4.08
Typical 5/8x3/4 or 3/4-inch residential bill			
Average use (13,230 gallons)	\$49.31	\$67.95	\$58.93
Median use (7,712 gallons)	33.35	46.77	38.88

Customers

Number of customers in the current test year (06/30/2013): 73

Current Test Year customers by meter size:

5/8 x 3/4 inch	33
3/4 inch	10
1 inch	29
4 inch	1

Notifications

Company mailed Customer Notification on October 1, 2013.

Complaints

Number of opinions filed against the rate increase application: 9.

Percentage of opinions to customer base: 12.33 percent (9/73).

Number of customer complaints filed against the company from February 2010 to December 2013: 0.

SUMMARY OF FILING

The test year results as adjusted by Utilities Division Staff ("Staff") for Little Park Water Company, Inc. ("Little Park" or "Company") show total operating revenue of \$74,446, an operating loss of \$2,271, for no rate of return, as shown on Schedule PNT-1. The original cost rate base ("OCRB") as adjusted by Staff is \$97,839.

The Company proposed a \$29,491 or 40.59 percent increase over the test year revenue of \$72,654 to \$102,145. The Company proposed revenue would result in an operating income of \$17,378, for a 15.35 percent rate of return and an operating margin of 17.01 percent. The Company has proposed an original cost rate base ("OCRB") of \$113,227. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 7,712 gallons from \$33.35 to \$46.77, for an increase of \$13.42, or 40.24 percent.

Staff recommends a \$15,061 or 20.23 percent increase over the Staff adjusted test year revenue of \$74,446 to \$89,507. Staff's recommended revenues would result in an operating income of \$9,553, for a 9.76 percent rate of return and an operating margin of 10.67 percent. Staff recommends an OCRB of \$97,839. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 7,712 gallons from \$33.35 to \$38.88, for an increase of \$5.53, or 16.58 percent.

During the test year ended June 30, 2013, Little Park provided potable water service to approximately 73 customers.

The Company is registered as an Arizona "C" corporation with the Corporations Division of the Arizona Corporation Commission ("Commission").

BACKGROUND

Little Park is a class D for-profit, Arizona public service corporation that provides potable water service to approximately 73 metered customers in a community between Sedona and the Village of Oak Creek in Yavapai County, Arizona.

The Company provides water services mostly to small residential customers with one large 4-inch meter customer, a local school.

On October 4, 2013, Little Park filed an application for a permanent rate increase. On November 1, 2013, Staff issued a Letter of Sufficiency.

CONSUMER SERVICES

A review of the Consumer Services Section database revealed that there were 9 opinions filed opposing the rate increase request. No complaints were filed against the Company from February 2010 to December 2013. A notarized affidavit of mailing for the rate application was filed on October 1, 2013.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

Little Park is current on its property and sales tax payments.

Little Park is in good standing with the Corporations Division of the Commission.

Little Park is currently in compliance with Arizona Department of Water Resources.

ENGINEERING ANALYSIS AND RECOMMENDATIONS

Staff inspected Little Park's plant facilities on November 19, 2013. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

RATE BASE

Staff's adjustments decreased the Company's proposed rate base by \$15,388, from \$113,227 to \$97,839, as shown on Schedule PNT-2, page 1. Details of Staff's adjustments are discussed below.

Plant in Service

Adjustment A decreases plant in service by \$21,999, from \$1,284,044 to \$1,262,045, as shown on Schedule PNT-2, page 2. A significant portion of Staff's decrease to plant in service was the result of Staff's adjustments to remove unsupported plant additions. Adjustment A consists of the following:

Franchises – Adjustment "a" decreases the Franchises account by \$769, from \$10,091 to \$9,322, as shown on Schedule PNT 2, Pages 2 and 3. Staff's adjusted amount reflects the \$140 balance established by Decision No. 71840 and a \$9,182 increase in Franchises supported by documentation.

Electrical Pumping Equipment – Adjustment "b" decreases the pumping equipment account by \$14,762, from \$64,315 to \$49,553, as shown on Schedule PNT-2, pages 2 and 3. Staff's adjusted amount reflects the \$39,050 balance established in Decision No. 71840, the \$24,782 increase in pumping equipment supported by documentation, and the \$14,279 plant retirement.

Water Treatment Plants – Adjustment "c" decreases the water treatment plants account by \$2,532, from \$267,091 to \$ 264,559, as shown on Schedule PNT-2, pages 2 and 3. Staff's adjusted amount reflects the \$264,559 balance established in Decision No. 71840 and disallowance of \$2,532 in capitalized interest on an unauthorized loan.

Transmission and Distribution Mains – Adjustment “d” decreases the transmission and distribution mains account by \$3,936, from \$665,859 to \$661,923, as shown on schedule PNT-2, pages 2 and 3. Staff’s adjusted amount reflects the \$661,923 balance established in Decision No. 71840 and the disallowance of \$3,936 in investment expense on Camp Soaring Eagle Project which is not used and useful.

Other Plant and Miscellaneous Equipment – Adjustment “e” increases the other plant and miscellaneous equipment account by \$1,662, from \$0 to \$1,662, as shown on schedule PNT-2, pages 2 and 3. Staff’s adjusted amount reflects the \$1,662 balance established in Decision No. 71840.

Miscellaneous Equipment – Adjustment “f” decreases the miscellaneous equipment account by \$1,662, from \$1,662 to \$0, as shown on schedule PNT-2, pages 2 and 3. Staff’s adjusted amount reflects the \$0 balance established in Decision No. 71840.

OTHER RATE BASE ITEMS

Accumulated Depreciation

Adjustment B decreases accumulated depreciation by \$6,823, from \$422,820 to \$415,997, as shown on Schedule PNT-2, pages 1 and 4. Staff’s adjusted account reflects the \$261,905 balance established in Decision No. 71840 and several Staff adjustments made to plant in service account balances.

Working Capital

Staff’s adjustment to cash working capital resulted in a net decrease of \$212, from \$5,669 to \$5,457, as shown on schedule PNT-2, pages 1 and 5, as a result of Staff’s adjusted operation and maintenance expense. Staff used the formula method for this determination.

OPERATING INCOME STATEMENT

Operating Revenue

Staff’s adjustment to operating revenue resulted in an increase of \$1,792, from \$72,654 to \$74,446, as shown on Schedule PNT-3, pages 1 and 2.

Adjustment “1” reflects adjusted gross metered water revenue.

Adjustment “2” adjusts total revenue to include other water revenue.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$1,847, from \$78,564 to \$76,717, as shown on Schedule PNT-3, page 1. Details of Staff's adjustments are presented below.

Repairs and Maintenance – Adjustment "3" decreases Repairs and Maintenance expense by \$126, from \$13,475 to \$13,349, as shown on schedule PNT-3, pages 1 and 2. This adjustment reflects Staff's calculation of repairs and maintenance based on supporting documents submitted by Company.

Water Testing – Adjustment "4" increases water testing expense by \$50, from \$637 to \$687, as shown on Schedule PNT-3, pages 1 and 2. This adjustment reflects the annual water testing costs determined in the attached Engineering Report.

Rate Case Expense – Adjustment "5" decreases annual rate case expense by \$1,000, from \$3,500 to \$2,500, as shown on Schedule PNT-3, pages 1 and 2. This adjustment reflects a normalized amount of rate case expense based on a three year normalization period.

In the last rate case, Commission allowed \$7,500 for rate case expense, normalized over 3 years. Staff believes the current rate case took less work, compared to the last rate case, since it was only a 3-year period between the last test year and current test year. Therefore, Staff recommends the same amount, \$7,500, for this rate case expense with 3 years normalization.

Miscellaneous Expense – Adjustment "6" decreases miscellaneous expense by \$618, from \$837 to \$219, as shown on schedule PNT-3, pages 1 and 2. This amount reflects Staff's calculation of miscellaneous expense based on supporting documentation.

Depreciation Expense – Adjustment "7" decreases depreciation expense by \$1,905, from \$20,111 to \$18,206, as shown on Schedule PNT-3, pages 1 and 3. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Property Tax Expense – Adjustment "8" increases property tax expense by \$157, from \$2,544 to \$2,701 as shown on Schedule PNT-3, pages 1, 4 and 5. Staff calculated its property tax amount using a modified version of the Arizona Department of Revenue's property tax method.

Income Taxes – Adjustment "9" increases income taxes by \$1,596, from negative \$3,553 to negative \$1,957, as shown on schedule PNT-3, pages 1, 4 and 6. This adjustment reflects Staff's calculation of income taxes based on synchronized interest and Staff's adjustments to operating revenue and expenses.

Return on Rate Base

The Company's proposed rates and charges would provide an operating income of \$17,378 for a return on rate base of 15.35 percent.

Staff's recommended rates and charges would provide an operating income of \$9,553 for a return on rate base of 9.76 percent.

REVENUE REQUIREMENT

Staff recommends total operating revenue of \$89,507, an increase of \$15,061, or 20.23 percent, over Staff-adjusted test year revenue of \$74,446. Staff's recommended revenue provides a 9.76 percent rate of return on the Staff recommended OCRB of \$97,839 as shown on Schedule PNT-1. Staff's recommended rates and charges would provide an operating income of \$9,553 and would yield a cash flow of \$15,723 and an operating margin of 10.67 percent.

Staff's total revenue requirement of \$89,507 provides the Company with sufficient cash flow to pay operating expenses and contingencies.

RATE DESIGN

Schedule PNT-4, pages 1 and 2, presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 7,712 gallons from \$33.35 to \$46.77, for an increase of \$13.42, or 40.24 percent.

Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 7,712 gallons from \$33.35 to \$38.88, for an increase of \$5.53, or 16.58 percent.

MISCELLANEOUS SERVICE CHARGES

The Company has not proposed any changes to its current service charges. Staff concurs with the Company's proposed service charges.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company has not proposed any changes to its current service line and meter installation charges. Staff concurs with the Company's proposed service charges.

STAFF RECOMMENDATIONS

Staff recommends:

1. Approval of its recommended rates and charges as shown in Schedule PNT-4.
2. The Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. The Company be ordered to continue to use the depreciation rates presented in Table B of the attached Engineering Report.
4. The Company be ordered to continue its current service line and meter installation charges as delineated in Table C of the attached Engineering Report.
5. Little Park file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. A maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the implementation of these BMPs in its next general rate application.

Little Park Water Company
Docket No. W-02192A-13-0336
Test Year Ended: June 30, 2013

Schedule PNT-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$ 72,654	\$ 73,902	\$ 102,145	\$ 88,963
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	544	0	544
Total Operating Revenue	\$ 72,654	\$ 74,446	\$ 102,145	\$ 89,507
Operating Expenses:				
Operation and Maintenance	\$ 59,462	\$ 57,768	\$ 59,462	\$ 57,768
Depreciation	20,111	18,206	20,111	18,206
Property & Other Taxes	2,544	2,701	2,888	2,884
Income Tax	(3,553)	(1,957)	2,306	1,097
Total Operating Expense	\$ 78,564	\$ 76,717	\$ 84,767	\$ 79,954
Operating Income/(Loss)	\$ (5,910)	\$ (2,271)	\$ 17,378	\$ 9,553
Rate Base O.C.L.D.	\$ 113,227	\$ 97,839	\$ 113,227	\$ 97,839
Rate of Return - O.C.L.D.	N/M	N/M	15.35%	9.76%
Operating Margin	N/M	N/M	17.01%	10.67%

RATE BASE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$ 1,284,044	\$ (21,999) A	\$ 1,262,045
Less:			
Accum. Depreciation	422,820	(6,823) B	415,997
Net Plant	\$ 861,224	\$ (15,176)	\$ 846,048
Less:			
Plant Advances	\$ 259,829	\$ -	\$ 259,829
Service Line and Meter Advances	5,492	-	5,492
Total Advances	265,321	-	265,321
Contributions Gross	572,194	-	572,194
Less:			
Amortization of CIAC	83,261	-	83,261
Net CIAC	488,933	-	488,933
Total Deductions	\$ 754,254	\$ -	\$ 754,254
Plus:			
1/24 Power & Water	\$ 588	\$ -	\$ 588
1/8 Operation & Maint.	5,669	(212) C	5,457
Total Additions	\$ 6,257	\$ (212)	\$ 6,045
Rate Base	\$ 113,227	\$ (15,388)	\$ 97,839

Explanation of Adjustment:

- A - Refer to Schedule PNT-2, Page 2
- B - Refer to Schedule PNT-2, Page 4
- C - Refer to Schedule PNT-2, Page 5

PLANT ADJUSTMENTS

Account No.	Company Exhibit	Adjustment	Staff Adjusted
301 Intangibles/Organization	-	-	-
302 Franchises	\$ 10,091	\$ (769) a	\$ 9,322
303 Land & Land Rights	6,094	-	6,094
304 Structures & Improvements	27,249	-	27,249
307 Wells & Springs	28,503	-	28,503
311 Electrical Pumping Equipment	64,315	(14,762) b	49,553
320.1 Water Treatment Plant	267,091	(2,532) c	264,559
320.2 Solution Chemical Feeders	-	-	-
330.1 Storage Tank	20,898	-	20,898
331 Transmission & Distribution Mains	665,859	(3,936) d	661,923
333 Services	98,712	-	98,712
334 Meters & Meter Installations	33,909	-	33,909
335 Hydrants	52,386	-	52,386
336 Backflow Prevention Devices	-	-	-
339 Other Plant and Misc. Equipment	-	1,662 e	1,662
340 Office Furniture & Equipment	-	-	-
341 Transportation Equipment	-	-	-
343 Tools Shop & Garage Equipment	-	-	-
344 Laboratory Equipment	-	-	-
345 Power Operated Equipment	-	-	-
346 Communication Equipment	-	-	-
347 Miscellaneous Equipment	1,662	(1,662) f	-
348 Other Tangible Plant	\$ 7,275	\$ -	\$ 7,275
105 C.W.I.P.	-	-	-
TOTALS			
	\$ 1,284,044	\$ (21,999) A	\$ 1,262,045

STAFF ADJUSTMENTS

a - FRANCHISE - Per Company Per Staff	\$10,091 9,322	(\$769)
To reflect account balance per decision No. 71840, supported plant additions, and the removal of non-related CN&N Extension expense.		
b - PUMPING EQUIPMENT - Per Company Per Staff	\$64,315 49,553	(\$14,762)
To reflect account balance per decision No. 71840, supported plant additions, and retirement of \$14,279 per original cost of replaced pump.		
c - WATER TREATMENT PLANT-Per Company Per Staff	\$267,091 264,559	(\$2,532)
To reflect account balance per decision No. 71840, and the removal of Capitalized Interest.		
d - TRANSMISSION AND DISTRIBUTION MAINS - Per Company Per Staff	\$665,859 661,923	(\$3,936)
To reflect account balance per decision No. 71840, and the removal of expense on Camp Soaring Eagle Project.		
f - OTHER PLANT AND MISC.EQUIPMENT- Per Company Per Staff	\$0 1,662	\$1,662
To properly reflect account balance per Decision No. 71840.		
g - MISCELLANEOUS EQUIPMENT-Per Company Per Staff	\$1,662 0	(\$1,662)
To properly reflect account balance per Decision No. 71840.		

ACCUMULATED DEPRECIATION ADJUSTMENT

B- Accumulated Depreciation - Per Staff
Per Staff

\$ 422,820
415,997 \$ (6,823)

ACCT		ACCUMULATED DEPRECIATION		
No.	Description	Company	Staff	Staff
		Application	Adjustment	Calculated
301	Organization	\$ -	\$ -	\$ -
302	Franchise	-	-	-
303	Land and Land Rights	-	-	-
304	Structures and Improvements	19,336	177	19,513
307	Wells and Springs	27,687	86	27,773
311	Electrical Pumping Equipment	36,291	(17,300)	18,991
320.1	Water Treatment Plant	42,510	2,476	44,986
320.2	Solution Chemical Feeders	-	-	-
330	Distribution Reservoirs & Standpipes	-	-	-
330.1	Storage Tank	20,048	61	20,109
330.2	Pressure Tank	-	-	-
331	Transmission and Distribution Mains	207,542	5,675	213,217
333	Services	35,099	1,041	36,140
334	Meters and Meter Installation	13,290	513	13,803
335	Hydrants	17,277	449	17,726
339	Other Plant and Miscellaneous Equipment	-	683	683
340	Office Furniture and Fixtures	-	-	-
340.1	Computers and Software	-	-	-
341	Transportation Equipment	-	-	-
343	Tools and Work Equipment	-	-	-
345	Power Operated Equipment	-	-	-
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	815	(815)	-
348	Other Tangible Plant	\$ 2,925	\$ 131	\$ 3,056
	Total	\$ 422,820	\$ (6,823)	\$ 415,997

STAFF PLANT ADJUSTMENTS

C - WORKING CAPITAL (1/8 operation & Maint exp. Portion of cash working capital formula method)- Per company	\$ 5,669	
Per Staff	<u>5,457</u>	<u>\$ (212)</u>

To reflect Staff's calculation of cash working capital based on Staff's
recommendations for operation and maintenance expense
(excluding purchased power and purchased water expenses).

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$ 72,654	\$ 1,248 1	\$ 73,902
460 Unmetered Water Revenue	-	-	-
474 Other Water Revenues	-	544 2	544
Total Operating Revenue	\$ 72,654	\$ 1,792	\$ 74,446
Operating Expenses:			
601 Salaries and Wages	\$ 21,672	\$ -	\$ 21,672
610 Purchased Water	1,200	-	1,200
615 Purchased Power	12,910	-	12,910
618 Chemicals	-	-	-
620 Repairs and Maintenance	13,475	(126) 3	13,349
621 Office Supplies & Expense	3,151	-	3,151
630 Outside Services	-	-	-
635 Water Testing	637	50 4	687
641 Rents	-	-	-
650 Transportation Expenses	-	-	-
657 Insurance - General Liability	2,080	-	2,080
665 Regulatory Commission Expense	-	-	-
666 Regulatory Commission Expense - Rate Case	3,500	(1,000) 5	2,500
675 Miscellaneous Expense	837	(618) 6	219
403 Depreciation Expense	20,111	(1,905) 7	18,206
408 Taxes Other Than Income	-	-	-
408.11 Property Taxes	2,544	157 8	2,701
409 Income Tax	(3,553)	1,596 9	(1,957)
Total Operating Expenses	\$ 78,564	\$ (1,847)	\$ 76,717
OPERATING INCOME/(LOSS)	\$ (5,910)	\$ 3,639	\$ (2,271)

STAFF ADJUSTMENTS

1 -	METER WATER REVENUE-Per Company	\$72,654	
	Per Staff	73,902	\$1,248

To reflect adjusted gross metered water revenue.

2 -	OTHER WATER REVENUE-Per Company	\$0	
	Per Staff	544	\$544

To adjust revenue to include other water revenues.

3 -	REPAIRS AND MAINTENANCE-Per Company	\$13,475	
	Per Staff	13,349	(\$126)

To reflect repairs and maintenance expense based on supported documents provided by company.

4 -	WATER TESTING-Per Company	\$637	
	Per Staff	687	\$50

To reflect Staff Engineering adjusted water testing expense.

5 -	REGULATORY COMMISSION EXPENSE (Rate Case) - Per Company	\$3,500	
	Per Staff	2,500	(\$1,000)

To reflect a reasonable normalized amount of rate case expense based on three years between rate cases.

\$	7,500	Rate Case Expense
	3	Divided by 3 years
\$	2,500	Annual Rate Case Expense

6 -	MISCELLANEOUS EXPENSE-Per Company	\$837	
	Per Staff	219	(\$618)

To reflect miscellaneous expense based on supported documentations, and a normalized amount of Use Permit for Water Pipeline expense.

\$	773	Use Permit for Water Pipeline Expense
	5	Divided by 5 years
\$	155	Annual Expense

STAFF ADJUSTMENTS (Cont.)

7 - DEPRECIATION - Per Company \$20,111
Per Staff 18,206 (\$1,905)

To reflect application of Staff's recommended depreciation rates to
Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment E - Test Year Depreciation Expense

LINE NO.	DESCRIPTION	[A] Plant In Service Per Staff	[B] Non-Depreciable or Fully Depreciated Plant	[C] Depreciable Plant Col A - Col B	[D] Depreciation Rate	[E] Depreciation Expense (Col C x Col D)
1	301 - Organization Cost	-	-	-	0.00%	-
2	302 - Franchise Cost	\$ 9,322	\$ 9,322	-	0.00%	-
3	303 - Land and Land Rights	6,094	6,094	-	0.00%	-
4	304 - Structures and Improvements	27,249	10,581	\$ 16,668	3.33%	\$ 555
5	305 - Collecting and Impounding Res.	-	-	-	2.50%	-
6	306 - Lake River and Other Intakes	-	-	-	2.50%	-
7	307 - Wells & Spring	28,503	20,365	8,138	3.33%	271
11	311 - Electric Pumping Equipment	49,553	9,643	39,910	12.50%	4,989
12	320 - Water Treatment Equipment	-	-	-	-	-
13	320.1 Water Treatment Plants	264,559	-	264,559	3.33%	8,810
14	320.2 Solution Chemical Feeders	-	-	-	20.00%	-
15	330 - Distribution Reservoirs & Standpipe	-	-	-	-	-
16	330.1 Storage Tanks	20,898	14,448	6,450	2.22%	143
17	330.2 Pressure Tanks	-	-	-	5.00%	-
18	331 - Transmission & Distr. Mains	661,923	12,701	649,222	2.00%	12,984
19	333 - Services	98,712	621	98,091	3.33%	3,266
20	334 - Meter & Meter Installations	33,909	1,499	32,410	8.33%	2,700
21	335 - Hydrants	52,386.00	3,445	48,941	2.00%	979
22	336 - Backflow Prevention Devices	-	-	-	6.67%	-
23	339 - Other Plant & Misc Equipment	1,662	-	1,662	6.67%	111
24	340 - Office Furniture and Fixtures	-	-	-	6.67%	-
25	340.1 Computers and Software	-	-	-	20.00%	-
26	341 - Transportation Equipment	-	-	-	20.00%	-
27	343 - Tools & Work Equipment	-	-	-	5.00%	-
28	345 - Power Operated Equipment	-	-	-	5.00%	-
29	346 - Communication Equipment	-	-	-	10.00%	-
30	347 - Miscellaneous Equipment	-	-	-	10.00%	-
31	348 - Other Tangible Plant	7,275.00	-	7,275	10.00%	728
32	Total Plant	\$ 1,262,045	\$ 88,719	\$ 1,173,326		\$ 35,536
33						
34	Composite Depreciation Rate (Depr Exp / Depreciable Plant):					3.03%
35	CIAC:					\$ 572,194
36	Amortization of CIAC (Line 34 x Line 35):					\$ 17,330
37						
38	Pro Forma Annual Depreciation Expense					
39						
40	Plant in Service					\$ 1,262,045
41	Less: Non Depreciable Plant					15,416
42	Fully Depreciable Plant					73,303
43	Depreciable Plant					\$1,173,326
44	Times: Staff Proposed Depreciation Rate					3.03%
45	Depreciation Expense Before Amortization of CIAC:					\$ 35,536
46	Less Amortization of CIAC:					17,330
47	Test Year Depreciation Expense - Staff:					\$ 18,206
48	Depreciation Expense - Company:					20,111
49	Staff's Total Adjustment:					\$ (1,905)

STAFF ADJUSTMENTS

8 -	PROPERTY TAXES - Per Company	\$2,544	
	Per Staff	<u>2,701</u>	<u>\$157</u>

To reflect property tax expense using the Arizona
Department of Revenue property method.
(Schedule PNT-3, Page 5 of 6)

9 -	INCOME TAXES-Per Company	(\$3,553)	
	Per Staff	<u>(1,957)</u>	<u>\$1,596</u>

To reflect Staff's calculation of income tax expense.
(Schedule PNT-3, Page 6 of 6)

OPERATING INCOME ADJUSTMENT F - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 74,446	\$ 74,446
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 148,891	\$ 148,891
4	Staff Recommended Revenue, Per Schedule PNT-1	74,446	89,507
5	Subtotal (Line 4 + Line 5)	\$ 223,337	\$ 238,398
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 74,446	\$ 79,466
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 148,891	\$ 158,932
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 148,891	\$ 158,932
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	29,778	\$ 31,786
15	Composite Property Tax Rate	9.072%	9.072%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 2,701	
17	Company Proposed Property Tax	2,544	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ 157	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 2,884
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		2,701
21	Increase/(Decrease) to Property Tax Expense		182
22	Decrease to Property Tax Expense		\$ 182
23	Increase in Revenue Requirement		15,061
24	Decrease to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.21%

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Billings	1.000000			
2	Uncollectible Factor	0.000000			
3	Revenues	1.000000			
4	Less: Combined Federal, State & Property Tax Rate (Line 12)	0.214863			
5	Subtotal (L3 - L4)	0.785137			
6	Revenue Conversion Factor (L1 / L5)	1.273663			
<u>Calculation of Effective Tax Rate:</u>					
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.5000%			
9	Federal Taxable Income (L7 - L8)	93.5000%			
10	Applicable Federal Income Tax Rate (Line 36)	15.0000%			
11	Effective Federal Income Tax Rate (L9 x L10)	14.0250%			
12	Combined Federal and State Income Tax Rate (L8 + L11)		20.5250%		
<u>Calculation of Effective Property Tax Rate:</u>					
13	Unity	100.0000%			
14	Combined Federal & State Income Tax Rate	20.5250%			
15	One Minus Combined Income Tax Rate	79.47500%			
16	Property Tax Factor	1.20959%			
17	Effective Property Tax Rate		0.00961319		
	Combined Federal, State Income & Property Tax Rate		21.4863%		
18	Required Operating Income (Schedule PNT-1)	\$ 9,553			
19	Adjusted Test Year Operating Income (Loss) (Schedule PNT-3, Page 1 of 6)	(2,271)			
20	Required Increase in Operating Income (L18 - L19)		\$ 11,824		
21	Income Taxes on Recommended Revenue (Col. (D), L40)	\$ 1,097			
22	Income Taxes on Test Year Revenue (Col. (B), L40)	(1,957)			
23	Required Increase in Revenue to Provide for Income Taxes (L21 - L22)		\$ 3,054		
24	Property Tax with Recommended Revenue (Schedule PNT-3, page 5 of 6, Col B, L19)	\$ 2,884			
25	Property Tax on Test Year Revenue (Schedule PNT-3, page 5 of 6, Col A, L16)	2,701			
26	Increase in Property Tax Due to Increase in Revenue (L25-L26)		\$ 182		
	Total Required increased in Revenue(L20+L23+L26)		\$ 15,060		
<u>Calculation of Income Tax:</u>					
		Test Year		Staff Proposed	
27	Revenue (Schedule PNT-3, Page 1 of 6)	\$ 74,446		\$ 89,507	
28	Less: Operating Expenses Excluding Income Taxes	78,675		78,857	
29	Less: Synchronized Interest (L44)	5,307		5,307	
30	Arizona Taxable Income (L27 - L28 - L29)	\$ (9,536)		5,343	
31	Arizona State Income Tax Rate	6.500%		6.500%	
32	Arizona Income Tax (L30 x L31)		\$ (620)		\$ 347
33	Federal Taxable Income (L30 - L32)	\$ (8,916)		\$ 4,995	
34	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (1,337)		\$ 749	
35	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	-		-	
36	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	-		-	
37	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	-		-	
38	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	-		-	
39	Total Federal Income Tax		(1,337)		749
40	Combined Federal and State Income Tax (L32 + L39, Col. B)		\$ (1,957)		\$ 1,097
41	Applicable Federal Income Tax Rate [Col. (D), L39 - Col. (B), L39] / [Col. (C), L33 - Col. (A), L33]				15.0000%
<u>Calculation of Interest Synchronization:</u>					
42	Rate Base (Schedule PNT2, page 1 of 6)	\$ 97,839			
43	Weighted Average Cost of Debt	5.42%			
44	Synchronized Interest (L42 x L43)	\$ 5,307			

RATE DESIGN

<u>Monthly Usage Charge</u>	<u>Present</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 16.00	\$ 24.00	\$ 19.50
3/4 Inch	24.00	36.00	30.00
1 Inch	40.00	60.00	49.00
1 1/2 Inch	80.00	120.00	97.00
2 Inch	128.00	192.00	156.00
3 Inch	256.00	384.00	312.00
4 Inch	400.00	600.00	488.00
6 Inch	\$ 800.00	\$ 1,200.00	\$ 975.00
 <u>Commodity Charge - Per 1,000 Gallons</u>			
<u>1 Inch meter and Smaller (Residential)</u>			
First 3,000 gallons	\$ 1.70	\$ 2.25	\$ 1.75
3,001 to 10,000 gallons	2.60	3.40	3.00
Over 10,000 gallons	3.10	4.15	4.08
 <u>1" Meter (Non-Residential)</u>			
First 32,000 gallons	2.60	3.40	N/A
Over 32,000 gallons	3.10	4.15	N/A
First 26,000 gallons	N/A	N/A	3.00
Over 26,000 gallons	N/A	N/A	4.08
 <u>1 1/2" Meter (All Classes)</u>			
First 106,000 gallons	2.60	3.40	N/A
Over 106,000 gallons	3.10	4.15	N/A
First 69,000 gallons	N/A	N/A	3.00
Over 69,000 gallons	N/A	N/A	4.08
 <u>2" Meter (All Classes)</u>			
First 195,000 gallons	2.60	3.40	N/A
Over 195,000 gallons	3.10	4.15	N/A
First 120,000 gallons	N/A	N/A	3.00
Over 120,000 gallons	N/A	N/A	4.08
 <u>3" Meter (All Classes)</u>			
First 434,000 gallons	2.60	3.40	N/A
Over 434,000 gallons	3.10	4.15	N/A
First 260,000 gallons	N/A	N/A	3.00
Over 260,000 gallons	N/A	N/A	4.08
 <u>4" Meter (All Classes)</u>			
First 545,000 gallons	2.60	3.40	N/A
Over 545,000 gallons	3.10	4.15	N/A
First 420,000 gallons	N/A	N/A	3.00
Over 420,000 gallons	N/A	N/A	4.08
 <u>6" Meter (All Classes)</u>			
First 755,000 gallons	2.60	3.40	3.00
Over 755,000 gallons	3.10	4.15	4.08
 <u>Standpipe, Bulk Water</u>			
Per 1,000 Gallons	\$ 3.10	\$ 4.15	\$ 4.08

RATE DESIGN (Cont.)

Service Line and Meter Installation	Company				-----Staff Recommended-----			
	Current Rates		Proposed Rates		Service		Total Charges	
	Total Charges		Total Charges		Line Charge	Meter Charge	Total Charges	
5/8" x 3/4" Meter	\$600		\$600		\$445	\$155	\$600	
3/4" Meter	\$700		\$700		\$445	\$255	\$700	
1" Meter	cost		cost		cost	cost	cost	
1½" Meter	cost		cost		cost	cost	cost	
	Turbo	Compound	Turbo	Compound	Turbo	Compound	Turbo	Compound
2" Meter	cost	cost	cost	cost	cost	cost	cost	cost
3" Meter	cost	cost	cost	cost	cost	cost	cost	cost
4" Meter	cost	cost	cost	cost	cost	cost	cost	cost
6" Meter	cost	cost	cost	cost	cost	cost	cost	cost

Other Service Charges

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Establishment	\$20.00	\$20.00	\$20.00
Establishment (After Hours)	\$40.00	Remove	N/A
Reestablishment (within 12 months)	(a)	(a)	(a)
Reconnection (Delinquent)	\$20.00	\$20.00	\$20.00
Meter Test (If Correct)	\$30.00	\$30.00	\$30.00
Deposit	(b)	(b)	(b)
Deposit Interest	(b)	(b)	(b)
NSF Check	\$15.00	\$15.00	\$15.00
Deferred Payment (per month)	1.5% per month	1.5% per month	1.5% per month
Meter Re-read	\$15.00	\$15.00	\$15.00
Late Payment Fee (per month)	1.5% per month	1.5% per month	1.5% per month
Moving Customer Meter (Customer Request)	At Cost	At Cost	At Cost
After Hour Service Charge (at customers request)	\$50.00	\$50.00	\$50.00
Fire Sprinkler	(c)	(c)	(c)

(a) Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

(b) Per Rule R14-2-403(B).

(c) 2% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month.

The service Charge for Fire Sprinklers is only applicable for Service lines separate distinct from the primary

All items billed at cost shall include labor, materials, and parts and all applicable taxes.

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 34

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	13,230	\$49.31	\$67.95	\$18.64	37.80%
Median Usage	7,712	\$33.35	\$46.77	\$13.42	40.24%
<u>Staff Recommend</u>					
Average Usage	13,230	\$49.31	\$58.93	\$9.62	19.51%
Median Usage	7,712	\$33.35	\$38.88	\$5.53	16.58%

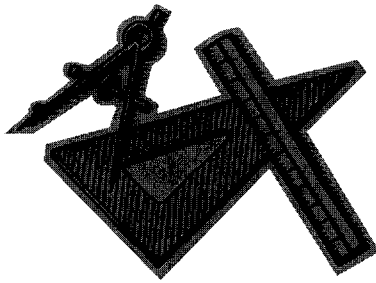
Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$16.00	\$24.00	50.00%	\$19.50	21.88%
1,000	17.70	26.25	48.31%	21.25	20.06%
2,000	19.40	28.50	46.91%	23.00	18.56%
3,000	21.10	30.75	45.73%	24.75	17.30%
4,000	23.70	34.15	44.09%	27.75	17.09%
5,000	26.30	37.55	42.78%	30.75	16.92%
6,000	28.90	40.95	41.70%	33.75	16.78%
7,000	31.50	44.35	40.79%	36.75	16.67%
8,000	34.10	47.75	40.03%	39.75	16.57%
9,000	36.70	51.15	39.37%	42.75	16.49%
10,000	39.30	54.55	38.80%	45.75	16.41%
15,000	54.80	75.30	37.41%	66.15	20.71%
20,000	70.30	96.05	36.63%	86.55	23.12%
25,000	85.80	116.80	36.13%	106.95	24.65%
50,000	163.30	220.55	35.06%	208.95	27.95%
75,000	240.80	324.30	34.68%	310.95	29.13%
100,000	318.30	428.05	34.48%	412.95	29.74%
125,000	395.80	531.80	34.36%	514.95	30.10%
150,000	473.30	635.55	34.28%	616.95	30.35%
175,000	550.80	739.30	34.22%	718.95	30.53%
200,000	628.30	843.05	34.18%	820.95	30.66%

Cash Flow Analysis

Line No.		<u>Staff Proposed</u>
1	Operating Revenue:	\$ 89,507
2	Operating Expenses:	
3	Operation and Maintenance	57,768
4	Depreciation	18,206
5	Property & Other Taxes	2,884
6	Income Tax	1,097
7	Total Operating Expense	<u>\$ 79,954</u>
8		
9	Operating Income	\$ 9,553
10		
11	Interest Expense	\$ 8,156
12		
13	Principal Repayment	\$ 3,880
14		
15	Refunds of Advances in Aid ¹	\$ 6,157
16		
17	Cash Flow : (L9+L4-L11-L13)	\$ 15,723
18		
19	DSC	
20	Before Tax : (L9+L4+L6)÷(L11+L13)	2.40
21	After Tax : (L9+L4)÷(L11+L13)	2.31

¹ Staff is not including cash related to the refund of AIAC in its cash flow analysis as the Company receives full depreciation expense on the AIAC plant



Engineering Report For
Little Park Water Company
Docket No. W-02192A-13-0336 (Rates)
By Katrin Stukov
Utilities Engineer
December 2, 2013

SUMMARY

Conclusions

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Little Park Water Company's ("Little Park" or "Company") water system is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
2. The Company's water system has a water loss of 2.8 percent. This percentage is within the acceptable limit of 10 percent.
3. Based on the Company's water use data for the test year, Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Staff") concludes that the Company's water system has adequate water supply and storage capacity to serve the present customer base and reasonable growth.
4. The Company's water system is not located in an Arizona Department of Water Resources ("ADWR") Active Management Area.
5. ADWR has determined that Little Park is currently in compliance with ADWR requirements governing water providers and/or community water systems.
6. The Company has no outstanding ACC compliance issues.
7. The Company has an approved backflow prevention tariff.
8. The Company has an approved curtailment plan tariff.

Recommendations

1. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that conform to the templates created by Staff for

the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.

2. Staff recommends an annual water testing expense of \$687 be used for purpose of this proceeding.
3. Staff recommends the depreciation rates delineated in Table B be used by the Company.
4. Staff recommends that the Company continue to use its current service line and meter installation charges as delineated in Table C.

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I. INTRODUCTION AND LOCATION OF COMPANY

On October 4, 2013, the Little Park Water Company ("Little Park" or "Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission").

The Little Park water system is located between Sedona and the Village of Oak Creek in Yavapai County and provides water service to over 70 customers.

The Company's certificated area covers approximately 0.8 square miles (approximately 488 acres). Figure 1 shows the location of Little Park within Yavapai County and Figure 2 delineates the Company's certificated area.

The Little Park plant facilities were visited on November 19, 2013, by Katrin Stukov, Commission Utilities Division Staff ("Staff") Engineer, in the accompaniment of Steve and Nick Gudovic, representing the Company.

Figure 1

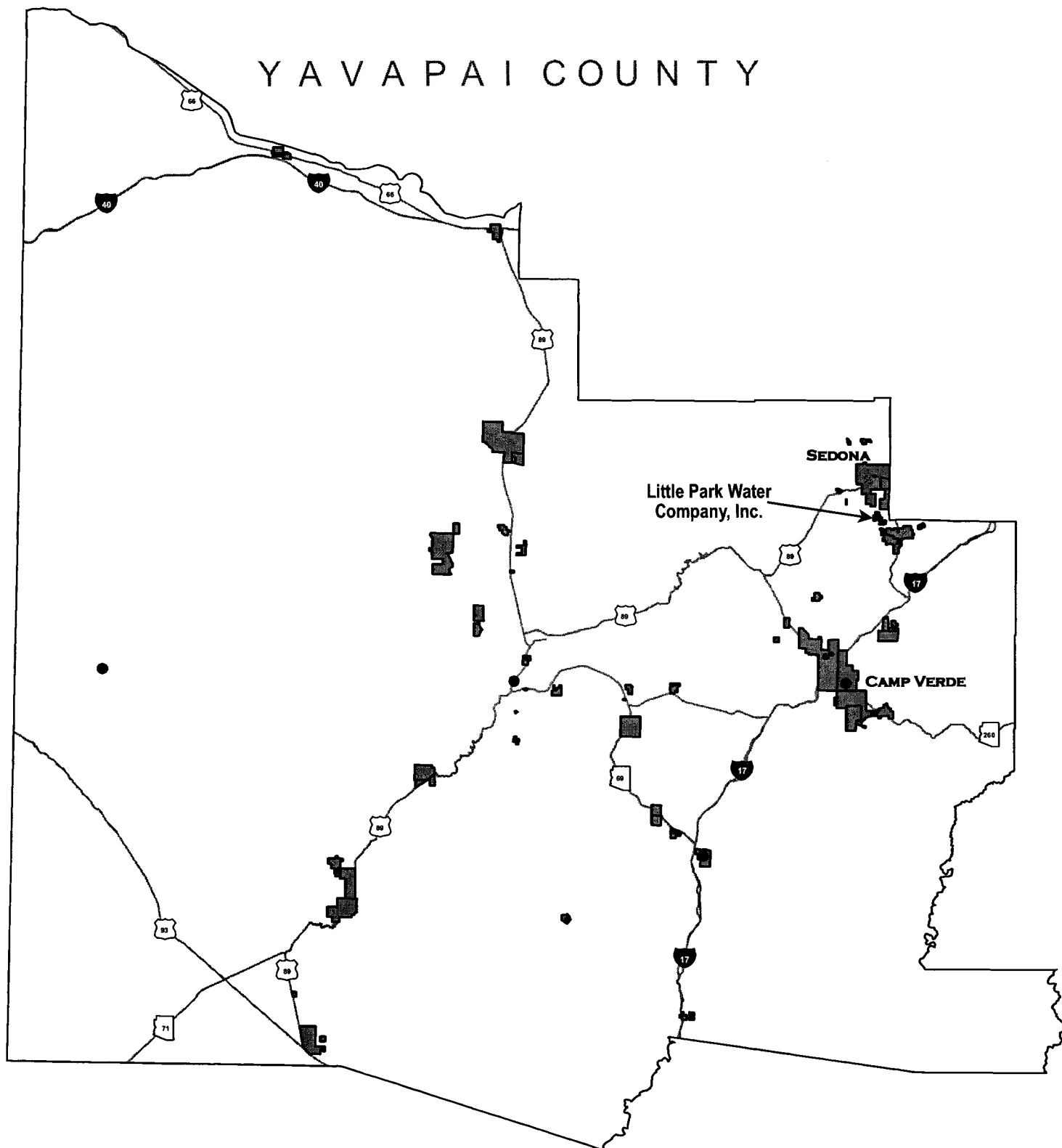
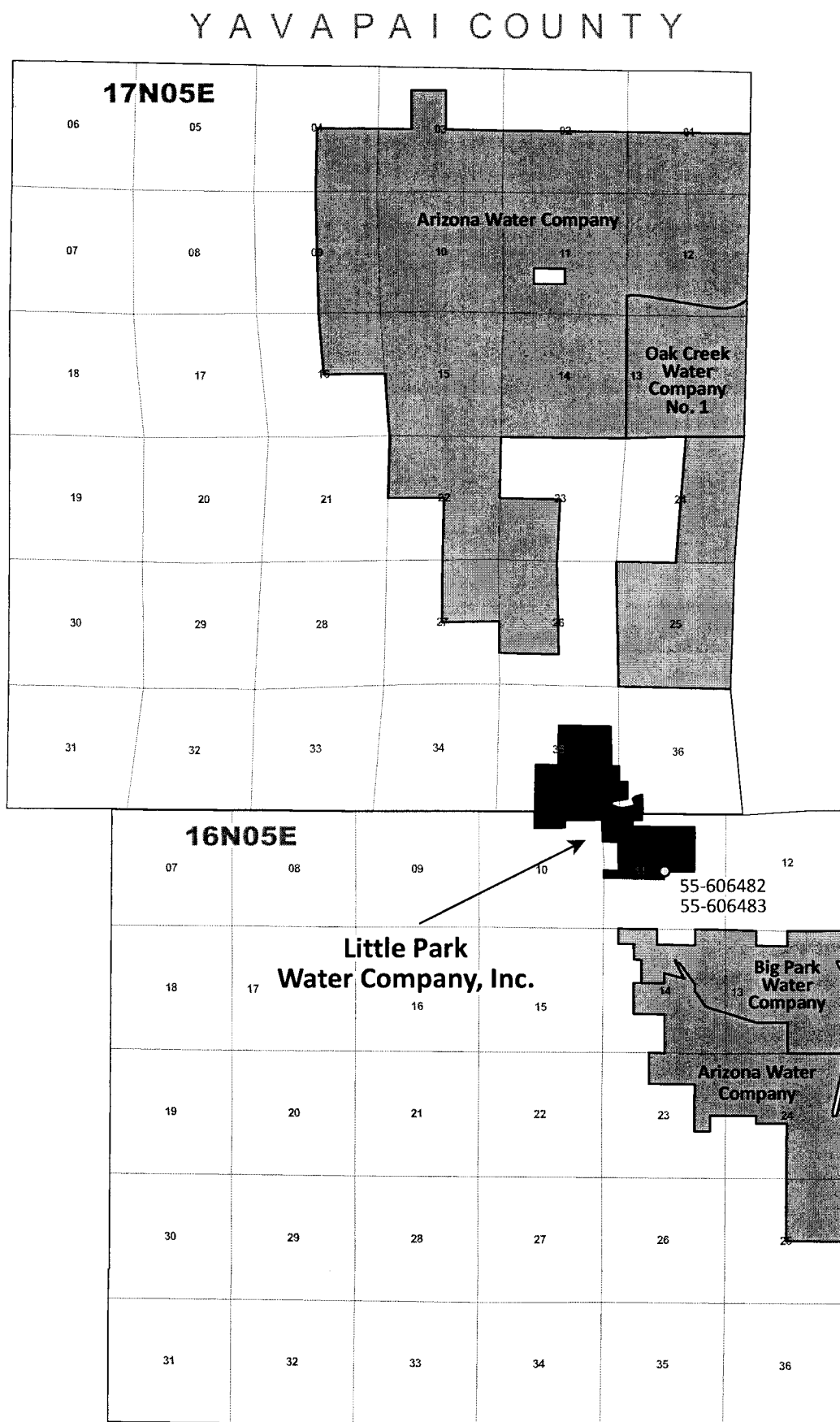


Figure 2



II. WATER SYSTEM

1. Description of the Water System

The current operation of the Little Park water system consists of two wells, two arsenic removal systems ("ARS"), three storage tanks, four booster pumps, two pressure tanks and a distribution system. The Company's system is also interconnected with the Big Park Water System ("Big Park") and supplements its water supply by purchasing water from Big Park, as needed. A water system schematic is shown in Figure 4 and a plant facilities summary¹ is tabulated below:

Wells

Company Well ID	ADWR Well ID	Pump ² (HP)	Pump Yield (gallons per minute ("GPM"))	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Treatment
No.1	55-606482	15	56	550	8	2	1971	ARS
No.2	55-606483	20	81	650	8	2	1977	ARS
No.3	55-530588 (not in service)	N/A	N/A	650	6	N/A	1991	N/A

Other Water Source

Name	Meter Size (in inches)	Gallons Purchased (during the test year)
Big Park	2	200

Arsenic Removal Systems

Capacity (GPM)	Date Placed in Service ³	Location
80	December 15, 2008	Well No.1
80	January 8, 2009	WellNo.2

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	1	1,500	1	7.5	4
8,800	2	2,000	1		

¹ Per Company's application, responses to data requests and site visit.

² According to the Company, pump and motor for Well No.1 were replaced in 2010 and pump and motor for Well No.2 were replaced in 2011.

³ Based on ADEQ Certificates of Approval of Construction

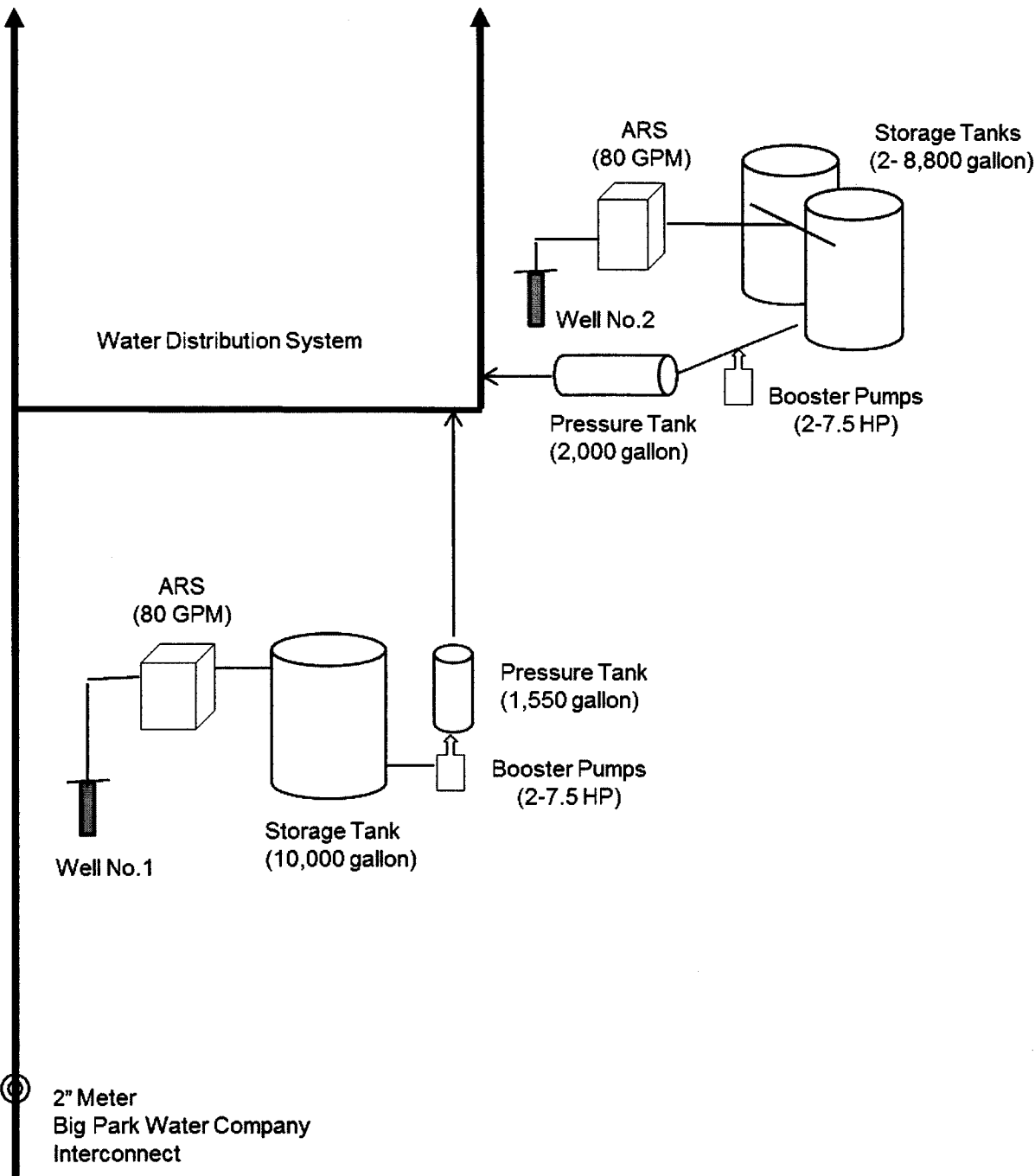
Mains		
Size (inches)	Material	Length (feet)
2	PVC	680
4	PVC	910
6	PVC/DIP	13,041
8	PVC/DIP	13,386
Total		28,017

Customer Meters	
Size (inches)	Quantity
5/8x3/4	33
3/4	10
1	29
Comp. 4	1
Total	73

Fire Hydrants
Quantity
29

Structures	Quantity
20'x 20' Metal building	2
Chain link fence	2

Figure 3 Little Park Water System Schematic

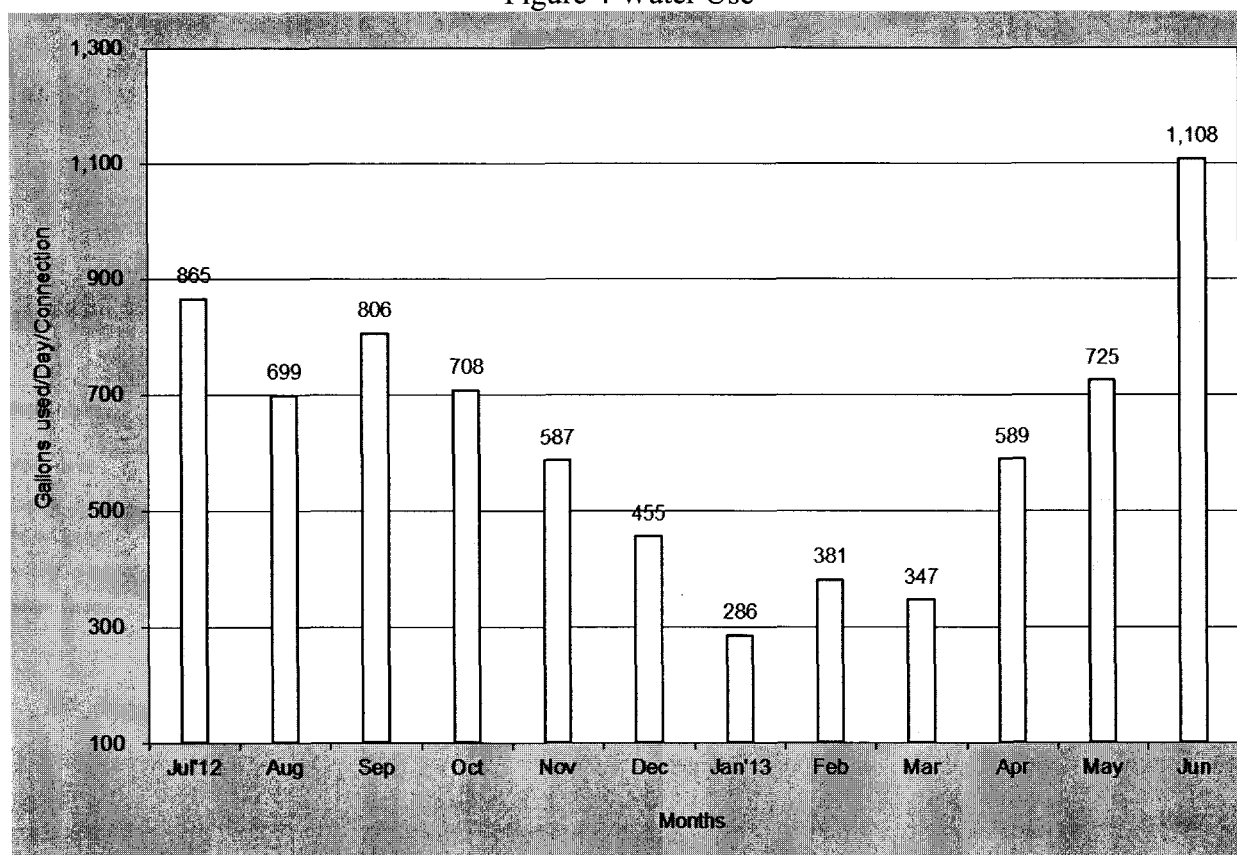


2. Water Use

Water Sold:

Figure 4 represents the water consumption data provided by the Company in its water use data sheet for the test year ending June 30, 2013⁴. The customer consumption included a high monthly water use of 1,108 gallons per day (“GPD”) per connection in June, and the low water use was 286 GPD per connection in January. The average annual use was 630 GPD per connection.

Figure 4 Water Use



Non-account Water:

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 17,362,700 gallons pumped, 200 gallons purchased from Big Park and 16,884,000 gallons sold to its customers for the test year, resulting in a water loss of 2.8 percent. This percentage is within acceptable limit of 10 percent.

⁴ Per Company's e-mail dated October 28, 2013.

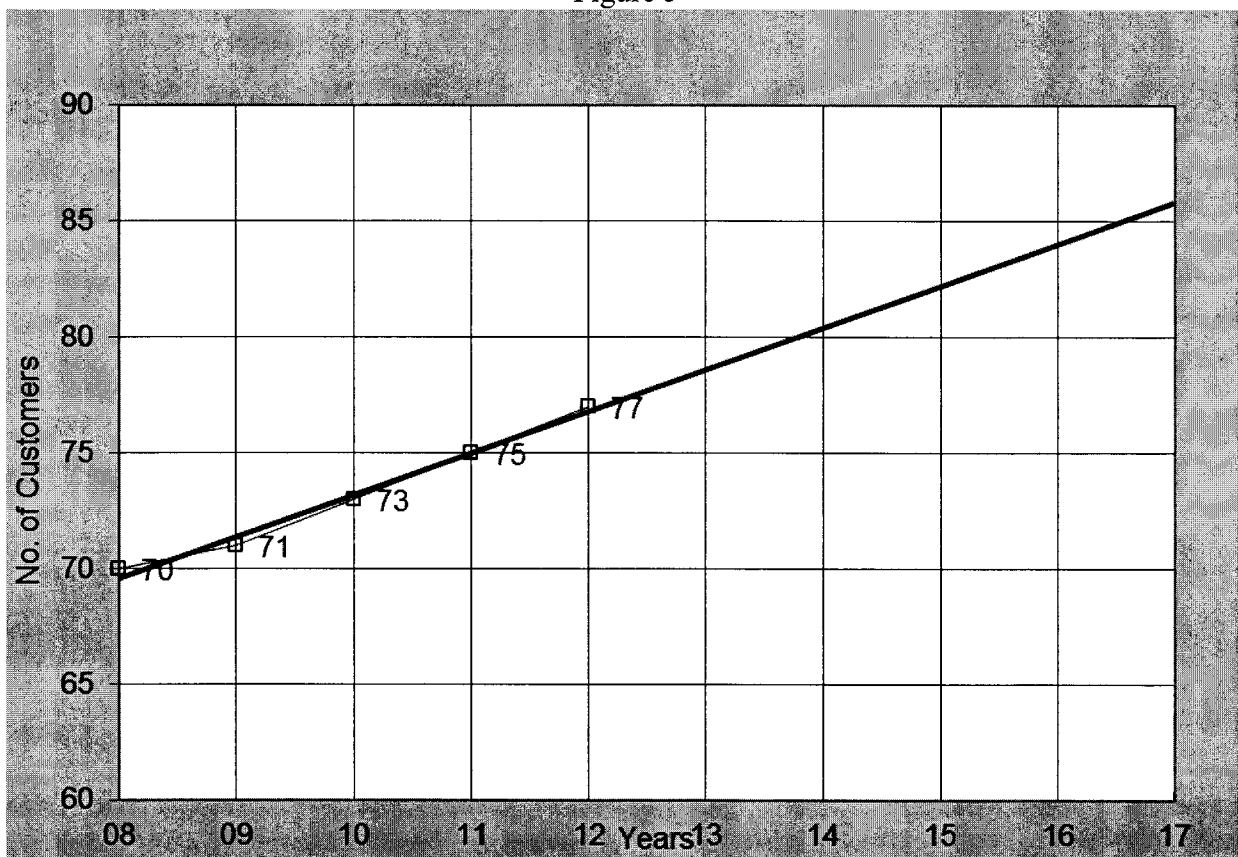
3. System Analysis

Based on the Company's water use data for the test year, Staff concludes that the Little Park system's production capacity of 137 GPM, in combination with available water supply from Big Park, and storage capacity of 27,600 gallons is adequate to serve the present customer base and reasonable growth.

4. Growth

Based on customer data at the end of each year obtained from the Company's Annual Reports, it is projected that the Little Park system could have over 85 connections by 2017. Figure 5 depicts actual growth from 2008 to 2012 and projects an estimated growth in the service area for the next five years using linear regression analysis.

Figure 5



III. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

ADEQ has reported that the Company's water system (PWS No. 13-075) is currently delivering water that meets water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.⁵

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$637 during the test year.⁶ Based on data provided by the Company, Staff's estimated average annual water testing expenses for the Company at \$687.

Table A shows the cost details of Staff's annual monitoring expense estimate totaling \$687 with participation in the MAP (the ADEQ MAP invoice for the 2013 Calendar Year was \$445).

Table A. Water Testing Expense

Monitoring	Cost per test	No. of test	Annual Expense
Total coliform – monthly	\$16	12	\$192
Lead & Copper – per 3 years	\$30	5	\$50
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$445
Total			\$687

Staff recommends an annual water testing expense of \$687 be used for purpose of this proceeding.

IV. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company's water system is not located in an Arizona Department of Water Resources ("ADWR") Active Management Area.

⁵ Per ADEQ Compliance Status Reports dated November 15, 2013.

⁶ Per Company e-mail dated November 14, 2013, the Company reported its water testing cost for arsenic at \$216 for the test year separately in the "Repairs and Maintenance" operating expenses account.

ADWR has determined that Little Park is currently in compliance with ADWR requirements governing water providers and/or community water systems⁷.

V. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.⁸

VI. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B. Staff recommends that the depreciation rates delineated in Table B be used by the Company.

⁷ Per ADWR Compliance Report dated November 26, 2013.

⁸ Per ACC Compliance status check dated October 25, 2013.

TABLE B
DEPRECIATION RATE TABLE FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc. Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Account 348, Other Tangible Plant, may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

VII. OTHER ISSUES

1. *Service Line and Meter Installation Charges*

Service line and meter installation charges are refundable advances. In its application the Company did not request changes to its current service line and meter installation charges and the current charges are within Staff's customary range of charges. Therefore, Staff recommends that the Company continue to use its current service line and meter installation charges as delineated in Table C.

Table C
Service Line and Meter Installation Charges

Meter Size	Company's Current Charges			Staff's Recommendation		
	Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$445	\$155	\$600	\$445	\$155	\$600
3/4-inch	\$445	\$255	\$700	\$445	\$255	\$700
1-inch	Cost	Cost	Cost	Cost	Cost	Cost
1-1/2-inch	Cost	Cost	Cost	Cost	Cost	Cost
2-inch	Cost	Cost	Cost	Cost	Cost	Cost
3-inch	Cost	Cost	Cost	Cost	Cost	Cost
4-inch	Cost	Cost	Cost	Cost	Cost	Cost
6-inch	Cost	Cost	Cost	Cost	Cost	Cost

2. *Curtailment Plan Tariff*

The Company has an approve curtailment plan tariff.

3. *Backflow Prevention Tariff*

The Company has an approved backflow prevention tariff.

4. *Best Management Practices ("BMPs")*

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.